GUIDE TO U.S. INCOME TAXATION FOR IDB-IIC FCU MEMBERS

Prepared Exclusively for IDB-IIC FCU Members
by The Wolf Group, P.C.

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Permissions
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1. About The IDB-IIC FCU Income Tax Guide

The IDB-IIC FCU Income Tax Guide ("Guide") has been prepared exclusively for IDB-IIC FCU members by The Wolf Group, P.C.

All information provided in the Guide is current as of January 2013 and is of a general nature. It should not be viewed as legal, tax, or investment advice. The Guide is not intended to address the particular facts and circumstances of any particular individual. A professional tax advisor should be consulted prior to taking any action based on the information in the Guide.

About The Wolf Group, P.C.

The Wolf Group, P.C. is a professional services firm based in the Washington, D.C. metro area focused on providing international and expatriate tax and business solutions to individuals and business clients. Financial planning and investment management services are provided through its sister firm, Wolf Group Capital Advisors. The Wolf Group, P.C. has served thousands of international organization employees, retirees and their families since 1983.

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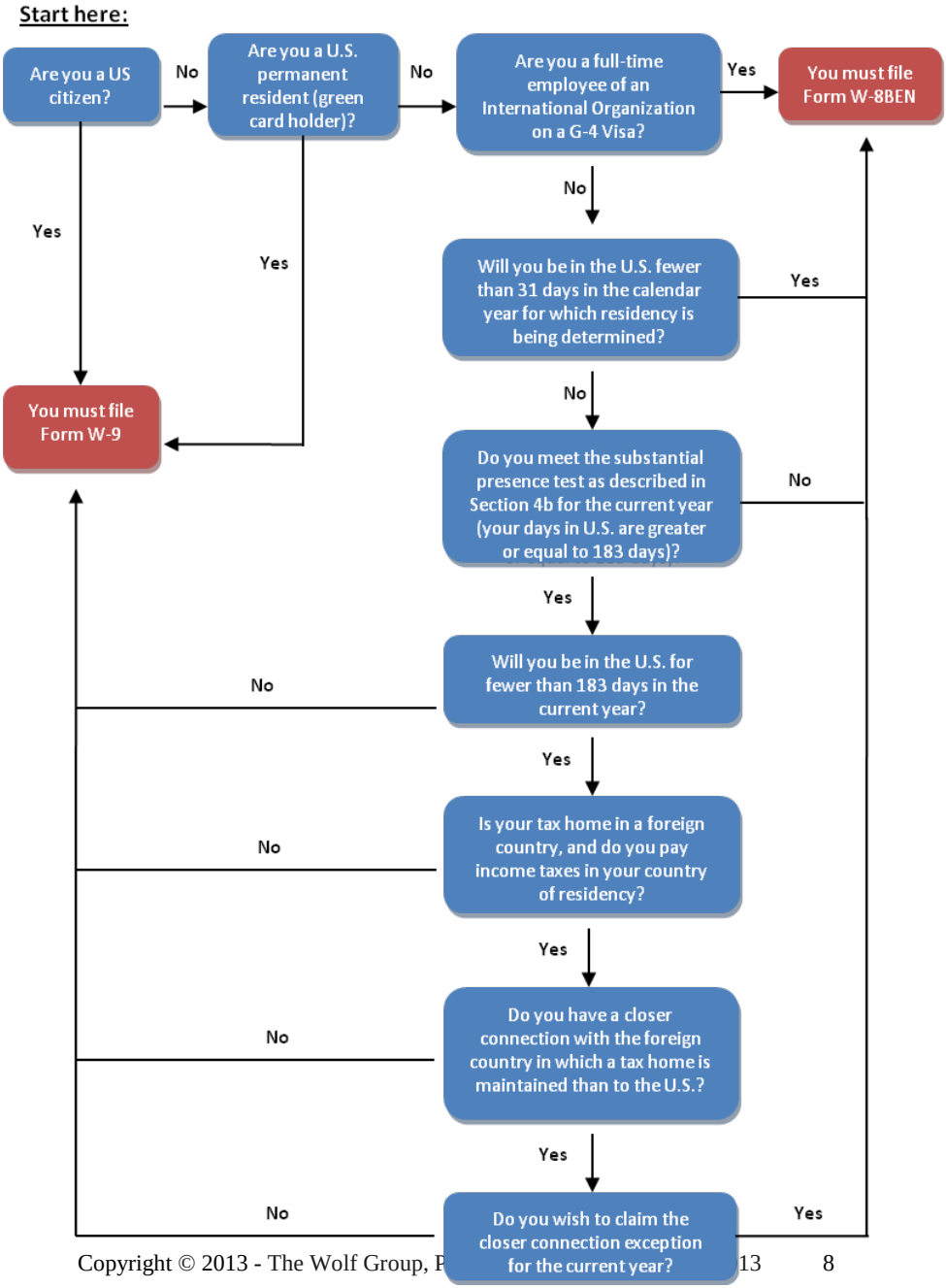
2. Foreword: Should I File Form W-9 or Form W-8BEN?

The chart below is an aid to help determine whether one should provide IDB-IIC FCU with a Form W-9 or a Form W-8BEN. For Form W-8BEN, please refer to Appendix I.



Please note that each member **must submit** either a Form W-9 or Form W-8BEN according to the above chart. Members should **not** complete both forms.

Please refer to Section 4 of this Guide for more information regarding U.S. income tax residency (including the substantial presence test). Please note that Sections 5-8 relate to the taxation of nonresidents, and Sections 9 and 10 relate to the taxation of U.S. citizens and residents.

3. Introduction to the U.S. Income Tax System

The U.S. income tax system is one of the most complicated in the world, with over 70,000 pages of laws and regulations. International organization employees and their families face a number of unique tax issues and opportunities not encountered by the far majority of Americans.

The Wolf Group, P.C. was asked to prepare the Guide so that IDB-IIC FCU members can gain a better understanding of some of these unique tax issues, become aware of their tax filing obligations and thereby reduce or avoid potentially severe tax penalties, and help improve the overall yield on their investment returns through efficient tax management.

The Guide is intended to provide general information on some of the U.S. income tax questions most frequently asked by international organization employees and their family members. The Guide does not address all of the intricacies and exceptions that may apply. It is not intended to be, and should not be used as, a substitute for specific personal tax advice. Be sure to read our "warnings" noted by  and our "tips" noted with IDB IIC FEDERAL CREDIT UNION .

4. U.S. Income Tax Residency

a. U.S. Citizens

U.S. citizens are subject to U.S. income taxation and information reporting on their worldwide income. This is true regardless of how long they may have lived outside the United States and whether or not they are a resident of a foreign country.

Even though U.S. citizens must report their worldwide income, they are usually not subject to double taxation. Relief from double taxation is provided through treaties, foreign tax credits and certain exclusions. *If you are a U.S. citizen or permanent resident/green card holder, please complete and submit IRS Form W-9 to IDB-IIC FCU.*

b. Non-U.S. Citizens

A non-U.S. citizen can be taxed under the U.S. income tax system as either a tax resident or a nonresident. A tax resident is generally subject to worldwide taxation whereas a nonresident is subject to U.S. tax only on certain items of U.S. source income. A non-U.S. citizen can be defined as a U.S. tax resident if he/she satisfies either of the two residency tests: the "green card test" or the "substantial presence test."

- Green Card Test

The green card test is satisfied if a person has obtained lawful permanent resident status under U.S. immigration laws. A person who obtains lawful permanent resident status is considered a U.S. tax resident from the first day of physical presence in the United States under that status. *If you pass the "green card test," please complete and submit IRS Form W-9 to IDB-IIC FCU.*

Green card holders generally remain subject to U.S. income tax even if they no longer live in the United States.

- Substantial Presence Test

Even though an individual does not possess a green card, he/she can still become a tax resident of the United States under the "substantial presence test." This test is based on a person's physical presence in the United States.

The test is satisfied if a person's days of physical presence within the United States equal or exceed 183 days over a three-year test period. The formula is as follows:

All days of U.S. presence in current year	+	1/3 of days of U.S. presence for the 1st preceding year	+	1/6 of days of U.S. presence for the 2nd preceding year

Under this test, a person is generally considered to be a U.S. tax resident from his/her first day of physical presence in the United States in the year in which the substantial presence test is satisfied. Please refer to Appendix II and Appendix III to help determine whether the substantial presence test is met for the current year. *If you pass the "substantial presence test," please complete and submit IRS Form W-9 to IDB-IIC FCU.*

- Substantial Presence Test: Exempt Individuals

An important exception under the substantial presence test provides that days of presence in the United States are not counted for "exempt individuals." An exempt individual includes anyone who is present in the United States by reason of his/her full-time employment with an international organization (i.e. The Inter-American Development Bank and Inter-American Investment Corporation).

An individual will be considered a "full-time employee" of an international organization if that individual's employment with the organization is consistent with an employment schedule of a person with a standard full-time work schedule with the organization.

Members of the "immediate family" of a full-time employee of an international organization are also considered exempt individuals for purposes of the substantial presence test. Immediate family includes the eligible employee's spouse and unmarried children under age 21 provided that their visa statuses are dependent upon the employee's visa status. Please refer to Appendix II and Appendix III to help determine whether the substantial presence test is met for the current year. *If you are an "exempt individual," please complete and submit IRS Form W-8BEN to IDB-IIC FCU.*

Possessing a "G-4 visa" does not automatically entitle an individual to nonresident status. The section of the law pertaining to tax residency does not make reference to "G-4 visas," but states that days of presence in the U.S. are not counted for persons who have "full-time employment with [an] international organization." When a G-4 visa holder retires from an international organization or becomes a part-time consultant of that organization, that person may no longer qualify as a "full-time employee" even though he/she retains the G-4 visa for a time. Therefore, a person may become a U.S. tax resident even though he/she continues to hold a G-4 visa.

- Substantial Presence Test: Residency Start and End Dates

  1. Residency Start Date

  A person who obtains a green card is considered to be a U.S. tax resident from the first day of his/her physical presence in the United States after obtaining his/her green card. Similarly, under the substantial presence test, a person is generally considered to be a U.S. tax resident beginning on his/her first day of physical presence in the United States in the year in which the substantial presence test is satisfied. If a person meets both residency tests in the same year, he/she is considered a resident as of the earlier start date.

EXAMPLE: Mr. Lopez, who possesses a G-4 visa, has been employed on a full-time basis with the IDB for 20 years. On March 31, 2012, Mr. Lopez retires from the IDB and stays in the United States through December 31, 2012 while he waits for his green card application to be approved. Since Mr. Lopez is no longer a full-time employee of the IDB beginning on April 1, 2012, and he exceeds 183 days in the U.S. during 2012, he is a U.S. income tax resident for 2012 with a residency start date of April 1, 2012.

Mr. Lopez should complete a Form W-9 signifying that he is a U.S. tax resident and submit that form to IDB-IIC FCU and the IDB Pension office. In most cases, he will file a "dual-status" tax return for 2012. The dual-status tax return would reflect Mr. Lopez's nonresident status from January 1, 2012 through March 31, 2012 and his resident status from April 1, 2012 through December 31, 2012.

2. Residency Termination Date

A U.S. tax resident who relocates from the United States to another country is generally deemed to be a U.S. tax resident through December 31 of the year of his/her departure from the United States.

An earlier residency termination date may be established by a departing tax resident who establishes that his/her "tax home" (generally the location of his/her employment) was in a foreign country through the remainder of the calendar year and that he/she maintained a closer connection to that country following his/her last day of physical presence in the United States. Please refer to Appendix II and Appendix III to help determine whether the closer connection test is met for the current year. If these criteria are met, then the person's residency termination date is generally the last day of physical presence in the U.S. in the calendar year of departure.

U.S. tax residents who become tax residents of a country with which the United States has an income tax treaty may also be able to claim a tax residency termination date that is earlier than December 31 under the "treaty-tiebreaker" provision of an income tax treaty. If the person meets the rules in order claim U.S. nonresident status under a treaty-tiebreaker, a taxpayer should file a Form 8833, "Treaty Based Disclosure Statement" with his/her U.S. tax return.

The use of the treaty-tiebreaker by green card holders must be carefully considered, as it may jeopardize their lawful permanent resident status and/or may trigger the "Exit Tax" (see Section 11).

c. No-Lapse Rule

The "no-lapse rule" provides special treatment for persons who are U.S. tax residents for any part of two consecutive years. Under this rule, if a person is a tax resident for any part of the current year and was a tax resident for any part of the previous year, the general residency rules are superseded and the person will be deemed to be a tax resident for the entire continuous period.

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The no-lapse rule is especially important to consider before one retires from an international organization; especially in the case of a G-4 visa holder who desires to receive a tax-free commutation upon retirement and has been filing joint tax returns with his/her U.S. citizen or resident spouse. As this is often a complex matter, we strongly recommend that you seek professional tax assistance.

NOTE: The following Sections 5-8 of this Guide relate to individuals who are nonresident aliens of the United States based on the rules described in the above Section 4. Sections 9 and 10 relate to individuals who are U.S. citizens or residents.

5. U.S. Income Taxation of Nonresidents

Under the U.S. tax system, a nonresident is generally taxed only on his/her income from U.S. sources, and his/her ability to claim deductions and exemptions is limited. A nonresident's income subject to U.S. tax is generally categorized as either "Effectively Connected Income" or "Non-Effectively Connected Income."

a. Effectively Connected Income

A nonresident's income that is effectively connected with a U.S. trade or business can be offset by allowable deductions and is taxed at the same graduated income tax rates (currently up to a 39.6% federal rate) that apply to U.S. citizens and residents.

Business type income is considered effectively connected with a U.S. trade or business. Some examples of this type of income include, but are not limited to:

- Wages earned in the U.S. (however, employment wages from The IDB and IIC are exempt if earned by a non-U.S. citizen employee)
- Business profits earned in the United States
- Income earned from the sale of U.S. real estate

b. Non-Effectively Connected Income

A U.S. nonresident's investment and other passive income that is not effectively connected with a U.S. trade or business is taxed at a flat 30% tax rate unless the 30% rate is reduced by a tax treaty. Non-effectively connected income cannot be offset by deductions. This type of income includes, but is not limited to:

- Dividends from U.S. corporations
- Certain types of U.S. source interest
- Social Security benefits
- Capital gains from the sale of securities in certain circumstances (Section 6d)

- Alimony paid by a U.S. citizen

Income tax treaties generally do not apply to reduce the 30% flat rate on non-effectively connected income unless the taxpayer is a tax resident of a treaty country. This is rarely, if ever, the case for G-4 visa holders who live and work in the United States for an international organization. Therefore, G-4 visa holder employees of international organizations generally must pay the 30% tax on U.S. source non-effectively connected income

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6. U.S. Taxation of Investment Income of Nonresidents

For purposes of this Section, it is assumed that investment income is not "effectively connected" with a U.S. trade or business.

a. Tax Exempt Interest Income

- Deposit Interest

Interest income earned on deposit accounts with financial institutions is considered to be deposit interest and is exempt from tax to nonresidents. Financial institutions include banks, credit unions, savings and loan associations and insurance companies. Within financial institutions, the interest can be earned from any type of deposit account (checking, savings, money market, certificates of deposit) and is exempt from taxation to nonresidents.

To obtain the exemption from tax, the nonresident should notify the financial institution of his/her nonresident status and file a Form W-8BEN.

Although deposit interest income paid by most U.S. financial institutions to nonresidents is nontaxable, certain nonresidents may receive a Form 1042-S from their financial institutions reporting the amount of interest income received. See Section 8b below for more information.

- Portfolio Interest

Another source of interest income that is exempt from tax to a nonresident is known as portfolio interest. The most common form of portfolio interest is interest paid on registered bond obligations issued after 1981. These bond obligations can be in the form of corporate or government bond obligations.

The nonresident should notify the bond issuer of his/her nonresident status by submitting a Form W-8BEN. Interest on most bonds on the market today qualifies as portfolio interest.

Although portfolio interest income paid by most U.S. financial institutions to nonresidents is nontaxable, certain nonresidents may receive a Form 1042-S from their financial institutions reporting the amount of interest income received. See Section 8b below for more information.

b. Taxable Interest Income

- Brokerage Money Market Accounts

Interest income received on money market accounts held at brokerage firms is generally taxable to a nonresident.

Some brokerage firms have money market accounts available through either a brokerage account or an associated bank. Interest income earned on the money market account with the brokerage firm would generally be taxable whereas the interest earned on the money market account with the associated bank would not be taxable.

- Non-registered Bonds

U.S. nonresidents are also taxed on interest income from non-registered bonds or notes, including interest earned on personal loans. Such interest would be subject to a 30% tax rate.

- Bond Mutual Funds

Although the earnings of bond mutual funds may be derived from registered bonds held by the mutual fund, the earnings the fund distributes to its investors are considered to be dividends and not interest. The earnings/distributions from bond mutual funds are not exempt from tax. However, foreign dividends earned by mutual funds are tax-exempt for nonresident aliens since they are deemed to be foreign-source income.

c. Equity Dividends

The source of dividend income is determined by the location of the company paying the dividend. Dividends paid by a U.S. corporation are U.S. source income and therefore taxable to a nonresident at a flat 30% tax rate, or lower treaty rate.

Dividends paid with respect to ownership in foreign corporations are foreign source income and are not taxable to nonresidents.

American Depository Receipts ("ADRs") are certificates that represent rights to shares in foreign corporations and are held by a custodian bank in the United States. ADRs are generally denominated in U.S. dollars. Since the underlying issuer is a foreign corporation, ADR dividends are treated as foreign, and nonresidents are exempt from U.S. tax on dividends paid by ADRs. Nevertheless, the foreign country where the foreign corporations are located may withhold a tax on dividends.

Investments in U.S. mutual funds that invest in both U.S. and foreign securities result in both U.S. source and foreign source income. The nonresident investor should carefully review his/her mutual fund year-end statements in order to determine any foreign corporate dividends that are exempt from U.S. taxation.

d. Capital Gains from the Sale of Securities

Generally, the law provides that capital gains from the sale of securities (i.e. stocks, bonds, mutual funds, etc.) are not taxable to a nonresident.

However, capital gains from the sale of personal property (i.e. securities) is sourced to the United States for nonresidents who have a "tax home" in the U.S. and are present in the U.S. 183 days or more during the calendar year.

The 183 days of physical presence for this test includes all days of physical presence in the U.S. *even if the person is a full-time employee of an international organization.* In other words, this 183 day rule is different from that of the substantial presence test, and does not have a similar exception for so-called "exempt individuals."

Full-time employees of the IDB or IIC who are nonresidents of the U.S. but live and work in the United States and are physically present in the United States for 183 days or more in a taxable year are generally subject to a 30% tax on capital gains from the sale of securities anywhere in the world.

EXAMPLE: Ms. Ferrari, a full-time IDB employee, is working in the U.S. on a G-4 visa. She sold several foreign stocks during 2011 that were held in her Brazilian brokerage account. She recognized gains from the sales of these stocks totaling $10,000. During the 2011 calendar year, she spent 321 days in the U.S.

Since Ms. Ferrari has her "tax home" in the U.S. and she spent more than 182 days in the U.S. during 2011, her capital gains of $10,000 from the sale of her foreign stocks are subject to U.S. tax at a 30% tax rate. Ms. Ferrari should complete a 2011 Form 1040NR tax return on or before June 15, 2012 and submit it along with a payment to the IRS of $3,000 ($10,000 x 30%).

7. U.S. Income Taxation of U.S. Real Estate Ownership by Nonresidents

a. U.S. Principal Residence

Nonresidents are not allowed to take the income tax deductions for mortgage interest or real estate taxes paid on their principal residence that are available to U.S. citizens and residents.

Nonresidents are subject to tax at capital gains rates (generally 15%; 20% for certain high income earners) on any gain realized on the sale of a U.S. principal residence, but losses are not allowed. Gains on the sale of U.S. real estate are reported on Schedule D (Form 1040) and attached to Form 1040NR. However, if the individual has used the property as his/her principal residence for at least 2 of the 5 years preceding the sale, he/she can exclude up to $250,000 of gain from gross income.

Generally, a person who purchases U.S. real estate from a nonresident is required to withhold a tax equal to 10% of the sale price. In practice, the title company (or other person handling the sale) usually performs the withholding. A nonresident may file a Form 8288-B, which permits taxpayers to request a withholding certificate from the IRS, reducing or eliminating the withholding based on a claim that shows that the taxpayer's maximum tax liability is less than the 10% tax otherwise required to be withheld. The taxpayer may decide not to apply for a withholding certificate, in which case he/she may receive a refund (if applicable) by filing a U.S. nonresident income tax return after the calendar year has ended.

b. U.S. Rental and Investment Properties

Generally, nonresidents are subject to a flat 30% tax on their gross rental income, with no deductions available for rental expenses incurred. However, they may make an election to treat their rental income as income effectively connected with a U.S. trade or business. As a result, the taxpayer is allowed to deduct rental expenses, and the net rental income is subject to the graduated rates

applicable to U.S. citizens and residents. The election remains in effect until it is revoked.

Common rental expenses include, but are not limited to, mortgage interest, real estate taxes, cleaning, repairs, painting, insurance, and management fees. Another common expense is depreciation expense, which allows the taxpayer to deduct a portion of the purchase price of a rental property each year.

The taxpayer is subject to tax on any gain realized on the sale of the property, as well as depreciation which must be recaptured at the sale. The portion of the gain related to depreciation recapture is taxed at 25%, and the rest of the gain at 15% (or 20% for certain high income earners). There is no taxable gain exclusion available as there is for the sale of a principal residence. The sale will be subject to the same withholding requirements noted at the end of Section 7a above.

8. Tax Forms and Filing Due Dates for Nonresidents

a. Form W-8BEN - Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding

Withholding agents, such as IDB-IIC FCU, that make a payment of interest or other investment income to an individual must obtain documentation that identifies him/her as a U.S. resident or nonresident prior to making the payment. This documentation is provided by means of a Form W-9 (residents) or Form W-8BEN (nonresidents). Please see the Foreword (Section 2) to determine if you should provide IDB-IIC FCU with a Form W-9 or a Form W-8BEN.

A nonresident must provide the withholding agent with a Form W-8BEN both in order to establish that he/she is not a U.S. person, and that he/she is the beneficial owner of the income being paid. Note that a nonresident who is married to a U.S. citizen or resident and files a "6013(g) election" (see Section 8f below) in order to become a resident will continue to be treated as a nonresident for purposes of the Form W-8BEN. That person should provide IDB-IIC FCU with a Form W-8BEN and not a Form W-9.

A jointly owned account is treated as owned by a nonresident only if valid Forms W-8BEN are provided by all of the owners of the account. If any of the account owners provides a Form W-9, then the payment is treated as having been made to a U.S. person, and a Form 1099-INT will be issued to the U.S. owner to report the interest payments made to the account.

A Form W-8BEN is generally valid for three years, unless there is a change of circumstances that makes the information on the form incorrect. However, a Form W-8BEN with a Taxpayer Identification Number ("TIN") remains valid indefinitely provided that (i) there are no changes of circumstances that make the information on the form incorrect and (ii) IDB-IIC FCU reports at least one payment to the

member annually on Form 1042-S (see the next Section on Form 1042-S).

The U.S. owner should report the full amount of interest income reported on Form 1099-INT on Part I of Schedule B (Form 1040). The amount that actually belongs to the nonresident joint owner should then be removed as a "Nominee Distribution" under the subtotal of all interest income listed.

If a financial institution such as IDB-IIC FCU does not receive either the Form W-8BEN (documenting foreign status) or the Form W-9 (documenting U.S. resident status) from the member, then IDB-IIC FCU must withhold a percentage of any interest payment as U.S. tax The rate of this "backup withholding" is determined by the IRS.

As mentioned, generally a Form W-8BEN is valid for 3 years. Therefore, in order to avoid backup withholding, all nonresident IDB-IIC FCU members should provide IDB-IIC FCU with a new Form W-8BEN every three years.

b. Form 1042-S – Foreign Person's U.S. Source Income Subject to Withholding

Although interest income paid by most U.S. financial institutions to nonresidents is nontaxable, the interest may be subject to new U.S. reporting requirements. Financial institutions have the option of providing a Form 1042-S reporting interest income either to all nonresidents, or to only those nonresidents who are residents of a country with which the U.S. has an information exchange agreement in effect (this list of countries is always changing).

Reporting is required for any calendar year in which the payee receives $10 or more in interest, beginning January 1, 2013. Effective for tax year 2013, many members will begin receiving Forms 1042-S (issued in early 2014) showing the amount of interest income received from IDB-IIC FCU. The regulatory changes affect

only the **reporting** of interest income paid. **The interest income will remain nontaxable** – members will not owe tax on the interest they receive from IDB-IIC FCU even though the exempt interest will be reported to the IRS. See Appendix IV for a sample Form 1042-S.

c. Form 1040NR – Nonresident Income Tax Returns

Nonresidents (including full-time employees of international organizations) who have taxable U.S. source income should file a nonresident income tax return on Form 1040NR ("U.S. Nonresident Alien Tax Return") to report that income.

Nonresidents must file under the "Single" or "Other Married Nonresident" filing statuses and generally are allowed only one "personal exemption." They may claim personal exemption amounts for their dependents only if the dependents are residents of Canada, Mexico, South Korea or U.S. nationals.

The "standard deduction" is not available to nonresidents, but a nonresident may claim certain itemized deductions such as state income taxes, charitable contributions to U.S. charities and certain miscellaneous deductions subject to limitation (tax return preparation fees, investment advisory service fees, investment related expenses, etc.).

The personal exemption amount and itemized deductions may only offset effectively connected income; nonresidents cannot use these deductions to offset the tax on non-effectively connected income. Nonresidents may not deduct home mortgage interest or real estate taxes on their residence.

The due date of a U.S. nonresident income tax return is June 15 of the following year if the taxpayer does not have wages subject to withholding. If the taxpayer has wages subject to withholding, then the due date of the tax return is April 15 of the following year.

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Wages earned by a full-time employee of the IDB or IIC who is not a U.S. citizen are exempt from taxation and not

subject to withholding; these employees' tax returns are therefore generally due by June 15.

d. State Income Tax Returns

Most states (and the District of Columbia) impose a state income tax, which is in addition to the federal income tax. The rules for determining state tax residency vary by state, but states usually impose income taxes on individuals who are domiciled in that state or who are physically present in the state for a majority of the year. D.C., Maryland, and Virginia all have both a domiciliary and physical presence test for determining state income tax residency.

State tax returns have their own due dates, independent of the federal due date. Maryland and D.C. returns are due on April 15, and Virginia returns are due on May 1.

A G-4 visa holder may be treated as a nonresident for federal purposes and a resident for state tax purposes.

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Every state has different rules regarding residency, income and deductions, etc. The rules that apply may be different for federal and state purposes.

e. Form 8288-B – Application for Withholding Certificate for Dispositions by Foreign Persons of U.S. Real Property Interests

As described in Section 7, a nonresident may file a Form 8288-B to request a reduction in the 10% withholding required on the sale of U.S. real estate. If/When the IRS issues the requested withholding certificate before the sale occurs, the buyer may reduce or eliminate the withholding in accordance with the certificate. The seller may apply for the withholding certificate once the property is under contract. If two nonresidents jointly own the property, they will each need to file an application.

f. Filing a Joint Return with a Resident Spouse - “6013(g) Election”

A nonresident taxpayer generally cannot file a joint tax return with his/her spouse. If a nonresident is married, he/she generally must file as “Other Married Nonresident Alien” on Form 1040NR. However, a nonresident who is married to a U.S. citizen or resident may make an election with his/her tax return called a “6013(g) election” to elect for the nonresident to be treated as a resident for tax purposes. Since both taxpayers would then be deemed tax residents, they may file a joint tax return on a Form 1040, U.S. Individual Income Tax Return.

To reiterate, the 6013(g) election is only available to a nonresident married to a U.S. citizen or resident. Single nonresidents may not make this election, nor may a nonresident who is married to another nonresident.

Once a 6013(g) election is made on a tax return, it is valid until revoked or terminated. See Appendix V for a sample 6013(g) election.

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Making a 6013(g) election to file jointly with a spouse frequently lowers the overall tax liability of the couple. This is partly due to generally lower tax rate brackets available to those taxpayers who file Married Filing Joint tax returns.

In order for a tax resident to file a joint return with a nonresident spouse, a formal 6013(g) election must be submitted with the tax return (see Appendix V for a sample 6013(g) election). If the election is not made, the joint tax return is invalid and the taxpayer may be subject to penalties if discovered by the IRS.

In electing to be treated as a resident, the nonresident will become subject to U.S. tax on his/her worldwide income.

g. Revocation / Termination of the 6013(g) Election

Once made, the 6013(g) election is valid until it is revoked, the spouses get divorced, or one of the spouses dies. The election can only be made once. Once revoked, the spouses cannot file a joint return again until they are both income tax residents in their own right. Tax planning utilizing the 6013(g) election and/or its revocation, may provide significant tax savings.

See Appendix VI for a sample 6013(g) revocation.

9. Taxation of Investment Income of U.S. Citizens and Residents

a. Interest

Most interest is taxed at ordinary income tax rates up to 39.6%. An additional 3.8% tax on net investment income may apply to certain high-income taxpayers beginning in 2013. Interest on municipal bonds is tax-exempt.

b. Equity Dividends

Generally, dividends are taxable as ordinary income. However, "qualified dividends" are currently taxed at capital gain rates of up to 15% or 20% depending on whether the taxpayer is in the high-income category. An additional 3.8% tax on net investment income may also apply to certain high-income taxpayers. "Qualified dividends" are defined as dividends received during the tax year from a domestic U.S. corporation or a "qualified foreign corporation." Generally, a "qualified foreign corporation" is a corporation resident in a country that has an income tax treaty with the United States.

c. Capital Gains

Capital gains are taxed based on their classification as being long-term or short-term, depending on how long the asset was held by the taxpayer. To be deemed long-term, an asset needs to be held for more than one year. Generally, long-term capital gains are taxed at 15% or 20%. Short-term gains (gains from the sale of assets held for one year or less) are considered to be ordinary income and are taxed using the graduated tax rate scale, currently up to 39.6%. Again, an additional 3.8% tax on net investment income may apply to certain taxpayers.

d. Information Reporting Requirements

U.S. citizens and residents ("U.S. persons") are required to file a number of informational reporting forms in addition to their income

tax returns. These forms generally do not affect an individual's income tax liability, but they report information to the IRS regarding the individual's non-U.S. assets and income. The IRS has placed a great deal of importance on these forms in recent years, and U.S. citizens and residents who fail to file these forms may be subject to significant penalties.

- Form W-9 – Request for Taxpayer Identification Number ("TIN") and Certification

Form W-9 is completed by U.S. citizens and residents in order to certify that they are U.S. persons and to provide the U.S. withholding agent (such as IDB-IIC FCU) with a U.S. taxpayer identification number. This form certifies that the TIN provided is correct and that the individual is not subject to backup withholding, or claims exemption from backup withholding if the individual is an exempt payee. See the Foreword to determine whether you should file a Form W-9 (residents) or a Form W-8BEN (nonresidents).

As soon as an IDB-IIC FCU member becomes a resident (either by receiving his/her lawful permanent resident status or by meeting the substantial presence test), he/she should complete Form W-9 and provide it to IDB-IIC FCU.

- Form TD F 90-22.1 - Report of Foreign Bank and Financial Accounts

Form TD F 90-22.1 "Report of Foreign Bank and Financial Accounts," or ("FBAR"), must be filed by U.S. citizens and residents on or before June 30 of the following year if at any point during the calendar year they have an ownership interest in, or signature authority over, financial accounts in a foreign country with an *aggregate value* in excess of $10,000 on any day during the year.

According to the IRS, a "financial account" includes any bank, securities, securities derivatives or other financial instruments

accounts. The term includes any savings, demand, checking, deposit, or any other account maintained with a financial institution or other person engaged in the business of a financial institution, including foreign life insurance policies with a cash surrender value.

Non-willful failure to file the FBAR can result in civil penalties of up to $10,000 per reporting violation. Willful failure to file the FBAR may result in a penalty of up to the greater of $100,000 or 50% of the account balance for each failure. The U.S. Treasury Department can also impose criminal penalties for tax fraud, tax evasion, and failure to timely file FBAR reports.

A nonresident who makes a 6013(g) election as described above is not considered a resident for FBAR purposes and therefore does not need to file FBARs.

Joint FBARs can only be filed by spouses who file a joint income tax return. All other taxpayers must file FBARs individually.

- Form 8938 - Statement of Specified Foreign Financial Assets

The IRS recently released the new Form 8938, "Statement of Specified Foreign Financial Assets." This new requirement is in addition to existing obligations, including the FBAR reporting requirements. While many individuals will file both the FBAR and the Form 8938 to report substantially the same information, it is possible that some individuals will only need to file one form or the other, as a result of the different filing thresholds and the asset types that must be reported on each form. As with the FBAR, penalties of $10,000 or more may apply for failing to file the Form 8938.

Nonresidents who make a 6013(g) election as described above are considered residents for purposes of Form 8938 and therefore may need to file the Form 8938.

e. Offshore Voluntary Disclosure Program

The IRS reopened its Offshore Voluntary Disclosure Program (the "Program") on January 9, 2012. The purpose of the Program is to help U.S. citizens and U.S. tax residents who have unreported foreign accounts and income to become compliant with their taxes and avoid possible criminal prosecution. Disclosures under the Program must be made before the IRS is aware of any wrongdoing, and they must cover the eight tax years prior to the disclosure. Taxpayers must file all original and amended tax returns for these years and pay back taxes and interest and penalties on the amounts due. All required information reporting forms (*i.e.* FBAR, Form 3520, Form 5471, etc.) must also be filed.

Currently, there is no deadline to apply for the Program as the IRS claims that it will continue the Program indefinitely, however, the terms of the Program may change at any time (including ending the Program or increasing the size of the penalty). The penalty under the Program is generally 27.5% of the highest aggregate value of foreign bank accounts, entities, and assets on any day during the eight full tax years prior to the disclosure, with some penalty reductions available.

Taxpayers whose unreported foreign accounts never exceeded $75,000 are eligible for a 12.5% penalty. Taxpayers who have reported all income from their unreported foreign accounts are eligible for a 0% penalty.

f. Other Information Reporting Requirements (Forms 8621, 3520, and 5471)

There are several other important information reporting forms in addition to the FBAR and the Form 8938. Like the FBAR and Form 8938, these forms carry significant penalties for failure to file.

U.S. persons who are shareholders of a Passive Foreign Investment Company ("PFIC") must file Form 8621, "Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund." The most common example of a PFIC is a foreign mutual fund. U.S. persons who own foreign mutual funds are usually subject to a complicated and punitive income tax regime on any income or gains earned from the foreign mutual funds. The Form 8621 filing requirement was recently made an annual requirement.

Foreign mutual funds owned by U.S. persons may result in substantially lower after-tax yields. Nonresidents who own foreign mutual funds and who are considering becoming a U.S. tax resident should consider selling these mutual funds before becoming a U.S. tax resident in order to avoid the punitive U.S. tax regime.

U.S. persons who have an interest in, or conduct transactions with, foreign trusts may need to file Forms 3520 and 3520-A. In addition, tax residents who receive a gift or inheritance of greater than $100,000 from a foreign person must file a Form 3520 to report the gift or inheritance.

Also, U.S. persons who have at least a 10% interest in a foreign corporation may need to file Form 5471, "Information Return of U.S. Persons With Respect To Certain Foreign Corporations." This requirement can arise even when an individual simply owns a rental property in a foreign jurisdiction through a corporation.

10. U.S. Income Taxation of U.S. Real Estate Ownership by U.S. Citizens and Residents

a. U.S. Principal Residence

U.S. citizens and residents are allowed income tax deductions for the amount of mortgage interest and real estate taxes they pay on their principal residence.

Residents are subject to tax on the amount of gain realized on the sale of their personal residence, but they are not allowed to deduct any losses. If the taxpayer has owned and used the property as his/her principal residence for at least 2 of the 5 years prior to the sale, then he/she is able to exclude up to $250,000 of gains ($500,000 for spouses filing a joint tax return). Any gain in excess of the exclusion is generally subject to a 15% tax rate. This rate is increased to 20% for certain high-income taxpayers, and a new 3.8% tax on net investment income may apply to certain taxpayers beginning in 2013.

b. U.S. Investment Properties

U.S. citizens and residents who own U.S. real estate for investment purposes (generally land) are not eligible for the gain exclusion related to the sale of a principal residence. Any loss resulting from the sale of an investment property is generally a capital loss that may be offset by capital gains.

c. U.S. Rental Properties

Net rental income earned by U.S. citizens and residents is subject to tax at graduated rates. Common rental expenses include mortgage interest, real estate taxes, cleaning, repairs, painting, insurance, and management fees. Another common expense is depreciation expense, which allows the taxpayer to deduct a portion of the purchase price of a rental property each year.

The taxpayer is subject to tax on any gain realized on the sale of the property, as well as depreciation which must be recaptured at the time of sale. The portion of the gain related to depreciation recapture is taxed at 25%, and the rest of the gain at 15% or 20%. An additional 3.8% tax on net investment income may apply to certain taxpayers beginning in 2013. There is no $250,000 or $500,000 gain exclusion available as there is with the sale of a principal residence.

11. The Exit Tax

In June 2008, Congress enacted the "Exit Tax" provisions that apply to certain U.S. citizens and U.S. "long-term residents" who relinquish their U.S. citizenship or U.S. lawful permanent resident status.

The rules provide, in part, that an individual covered by the rules ("covered expatriate") is an individual who is a "long-term resident" who ceases to be a U.S. lawful permanent resident. A "long-term resident" is a green card holder who was a U.S. lawful permanent resident in at least eight of the prior 15 years. For purposes of this test, holding a green card for one day in any year counts as an entire year.

In addition, in order for an individual to be a "covered expatriate" and subject to these rules, one of the following must also apply: (i) the individual's average annual net income tax liability for the prior five years was greater than $155,000 (2013 amount); or (ii) the individual's net worth on his/her expatriation date is $2,000,000 or more, or (iii) the individual fails to certify that he/she has met U.S. tax law requirements for the prior five-year period by filing Form 8854 with the IRS.

If the exit tax applies, a "covered expatriate" is deemed to have sold his/her worldwide property on the day before he/she abandoned his/her green card or U.S. citizenship. Gain from the deemed sale is recognized to the extent that the aggregate gain exceeds $668,000 (2013 amount). In addition, the "covered expatriate" is deemed to have liquidated in full certain retirement accounts.

A "covered expatriate" may be required to include in his/her taxable income the entire present value of the taxable portion of a pension received from a non-U.S. payor for the year in which he/she relinquishes his/her green card.

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If you intend to retain your green card for at least eight years, but may relinquish it after that time, and you satisfy the income tax or net worth test set forth above, you should be aware of the fact that you may become subject to the "exit tax."

12. Appendix I – Form W-8BEN

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SUBSTITUTE
Form W-8BEN

Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding

This information is required in accordance with the provisions of the Internal Revenue Code applicable to foreign individuals. IDB-IIC FCU will use this information to determine the appropriate Federal tax withholding applicable to any payment(s) you receive. You must complete this form prior to receiving a payment from IDB-IIC FCU. In addition, if there is a change in your tax status, you must complete a new form. Please read the Instructions before completing this form, and print all information below. **U.S. CITIZENS and LAWFUL PERMANENT RESIDENTS should not complete this form; instead, please complete Form W-9. All others should see the flowchart on page 7 of the "New Interest Reporting to Nonresidents" Insert to determine if you should file a Form W-8BEN or a Form W-9.**

Part I	**Identification of Beneficial Owner** (see Instructions)

1. Name of Beneficial Owner (Last, First, Middle) (1 name only per Form W-8BEN)

2. Country of origin/incorporation/organization

3. Type of Beneficial Owner (check only one)
☐ Individual ☐ Corporation ☐ Partnership ☐ Estate ☐ Simple Trust ☐ Complex Trust ☐ Grantor Trust ☐ Disregarded Entity ☐ International Organization ☐ Private Foundation ☐ Government ☐ Central Bank of Issue ☐ Tax-Exempt Organization

4. Permanent residence address (street, apt. or rural route) – include city or town, state or province, postal code where appropriate, and country (do not abbreviate). This can be a U.S. address.

5. Mailing address – include city or town, state or province, postal code where appropriate, and country (do not abbreviate). This can be an office of the IDB-IIC.

6. U.S. taxpayer identification number, if required. (see Instructions) ☐ SSN or ITIN ☐ EIN _____

7. Member Account Number(s)

Part II	**Certification**

Under penalties of perjury, I declare that I have examined the information on this form and any related documents and to the best of my knowledge and belief it is true, correct, and complete. I further certify under penalties of perjury that:

- I am the beneficial owner (or am authorized to sign for the beneficial owner) of all the income to which this form relates,
- The beneficial owner is not a U.S. person,
- The income to which this form relates is not effectively connected with the conduct of a trade or business in the United States, is effectively connected but is not subject to tax under an income tax treaty, or the partner's share of a partnership's effectively connected income, **and**
- For broker transactions or barter exchanges, the beneficial owner is an exempt foreign person as defined in the instructions.

Furthermore, I authorize this form to be provided to any withholding agent that has control, receipt, or custody of the income of which I am the beneficial owner or any withholding agent that can disburse or make payments of the income of which I am the beneficial owner. If I have provided a U.S. address on Line 4 above, the beneficial owner of the account(s) is a G-4 visa holder. If other reason for U.S. address, please explain:

The United States Internal Revenue Service does not require your consent to any provisions of this document other than the certifications required to establish your status as a non-U.S. person.

Sign Here > _____ _____

Signature of Beneficial Owner (or individual authorized to sign) POA – copy of authorization must be attached

Date (MM-DD-YYYY)

13. Appendix II – Substantial Presence Test & Closer Connection Test

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Substantial Presence Test

The substantial presence test is used to determine whether a non-U.S. citizen who is not a lawful permanent resident should be classified for tax purposes as a resident alien. The information below will assist you in determining your U.S. tax residency status.

Step 1 **Check the statement that describes your status and follow the instructions after the statement.**	☐ I am a full-time employee of an international organization on a G-4 visa or a family member of the employee on a G-4 visa. If you meet one of these conditions, you are a nonresident alien for tax purposes for the calendar year in which this form is completed. Do not complete Step 2 or the Closer Connection Test. Complete Form W-8BEN.
	☐ The above statement does not apply. Proceed to Step 2
Step 2 **Substantial Presence Test**	☐ I will be in the U.S. fewer than 31 days in the entire calendar year for which residency is being determined. You are a nonresident alien for tax purposes. Do not complete Step 2 or Closer Connection Test. Complete Form W-8BEN.
	This step involves a calculation of the number of days that you have been physically present in the U.S. during the current year and the two immediately preceding years. It is important to note that days of physical presence while working full-time for an international organization do not count for purposes of this test. Please review the Instructions for Substantial Presence Test before completing Step 2.

YEAR	PERIOD(S) WHEN YOU WERE PHYSICALLY PRESENT IN THE U.S.	TOTAL COUNTABLE DAYS OF U.S. PRESENCE	CALCULATION FACTOR	DAYS TO COUNT
Current Year: _____	_____	_____	**Multiply by 1**	
1st preceding year: _____	_____	_____	**Multiply by 1/3**	
2nd preceding year: _____	_____	_____	**Multiply by 1/6**	
			Total:	

☐ Check here if your total days in Substantial Presence Test are fewer than 183 days. You are a nonresident alien for federal tax purposes for the current year. Do not complete Closer Connection Test. Complete Form W-8BEN.

☐ Check here if your total days in Substantial Presence Test are equal to or greater than 183 days. You are a resident alien for federal tax purposes for the current year. Proceed to Closer Connection Test.

Closer Connection Test

Even though you meet the substantial presence test and are considered a resident alien for federal tax purposes, you may be eligible to claim the closer connection exception. Please read the Instructions to Closer Connection Test for information regarding the closer connection exception.

☐ Yes, I qualify for the closer connection exception. Complete Form W-8BEN.

☐ No, I do not qualify for the closer connection exception**. STOP – you must file Form W-9, not Form W-8BEN.**

14. Appendix III – Instructions for Form W-8BEN, Substantial Presence Test & Closer Connection Test

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Instructions for Completing the Form W-8BEN: Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding

You have been asked to complete the Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding form because you are receiving dividend payments from IDB-IIC FCU and you are not a U.S. citizen or green card holder. Under Federal tax laws, all non-U.S. citizens are classified as either resident aliens or nonresident aliens. IDB-IIC FCU must establish your proper classification with respect to residency for Federal tax purposes in order to determine the proper tax withholding and file the appropriate reports with the Internal Revenue Service. By completing the information on the form, IDB-IIC FCU can determine whether you should be classified for Federal tax purposes as a resident alien or a nonresident alien. The Instructions below will assist you in completing this form. Please note that you must complete this form prior to receiving a payment from IDB-IIC FCU and any time your tax status changes.

Part I. Identification of Beneficial Owner

1. **Name of Beneficial Owner** – Enter the full name of the beneficial owner of the account(s) – Last, First, Middle.

2. **Country of origin/incorporation/organization** – If the beneficial owner of the account(s) is an individual, enter the country of origin. If the owner is a corporation, enter the country of incorporation. If the owner is another type of entity, enter the country under whose laws it is created, organized, or governed.

3. **Type of Beneficial Owner –** Check the one box that represents the owner's classification under U.S. tax principles. By checking a box, you are representing that the owner qualifies for this classification.

4. **Permanent residence address** – Enter your permanent address in the country where you claim to be a resident for purposes of that country's income tax**. If the owner is an individual who does not have a tax residence in any country (as is the case for most G-4 visa holders who live and work in the United States), the permanent residence is where the owner "normally resides." This can be a U.S. address. Do not use an address of a financial institution or of an employer (Intambank), a P.O. Box, or an "in care of" address.**

5. **Mailing address** – Enter your mailing address only if it is different from the address you show on line 4.

6. **U.S. taxpayer identification number** – Enter the owner's U.S. taxpayer identification number and check the box that applies to the owner's taxpayer identification number. If the owner is an individual, you are generally required to enter the owner's social security number ("SSN"). If the owner is not eligible to get an SSN, he/she may use an Individual Tax Identification Number ("ITIN").

7. **Member Account Number(s)** – Enter the IDB-IIC FCU Member Account Number(s) of the owner.

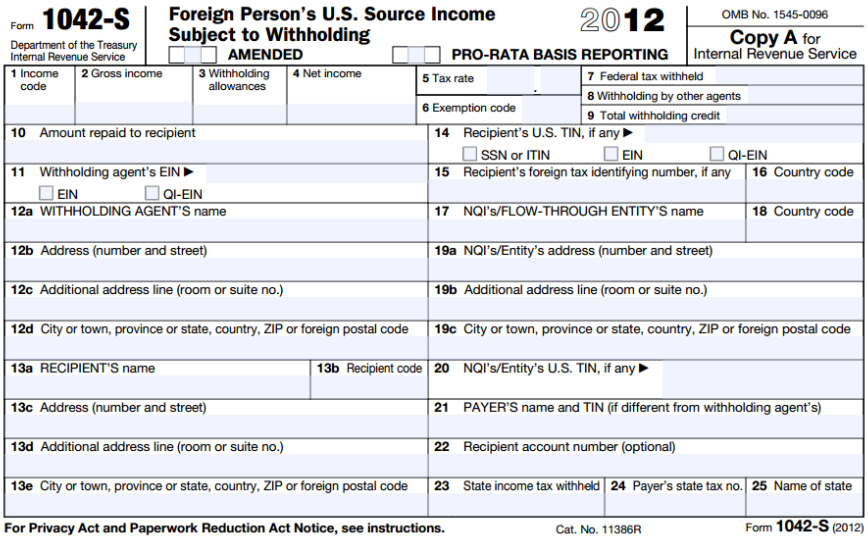
Part II. Certification

Sign and date the form, and return the completed form to IDB-IIC FCU. If you are signing Form W-8BEN under a power of attorney, attach a copy of the power of attorney to the Form W-8BEN.

CHANGE IN CIRCUMSTANCES
If a change in circumstances makes the information on this form incorrect, you are required to immediately complete a new form. Failure to do so may result in incorrect Federal tax withholding and reporting.

EXPIRATION OF FORM
This form will remain in effect for a period of three years from the date that it is signed.

15. Appendix IV – Form 1042-S



Form **1042-S** — Department of the Treasury, Internal Revenue Service

Foreign Person's U.S. Source Income Subject to Withholding — 2012

OMB No. 1545-0096

Copy A for Internal Revenue Service

☐ AMENDED ☐ PRO-RATA BASIS REPORTING

1 Income code	2 Gross income	3 Withholding allowances	4 Net income	5 Tax rate / 6 Exemption code	7 Federal tax withheld / 8 Withholding by other agents / 9 Total withholding credit

10 Amount repaid to recipient	14 Recipient's U.S. TIN, if any ► ☐ SSN or ITIN ☐ EIN ☐ QI-EIN
11 Withholding agent's EIN ► ☐ EIN ☐ QI-EIN	15 Recipient's foreign tax identifying number, if any / 16 Country code
12a WITHHOLDING AGENT'S name	17 NQI's/FLOW-THROUGH ENTITY'S name / 18 Country code
12b Address (number and street)	19a NQI's/Entity's address (number and street)
12c Additional address line (room or suite no.)	19b Additional address line (room or suite no.)
12d City or town, province or state, country, ZIP or foreign postal code	19c City or town, province or state, country, ZIP or foreign postal code
13a RECIPIENT'S name / 13b Recipient code	20 NQI's/Entity's U.S. TIN, if any ►
13c Address (number and street)	21 PAYER'S name and TIN (if different from withholding agent's)
13d Additional address line (room or suite no.)	22 Recipient account number (optional)
13e City or town, province or state, country, ZIP or foreign postal code	23 State income tax withheld / 24 Payer's state tax no. / 25 Name of state

For Privacy Act and Paperwork Reduction Act Notice, see instructions. Cat. No. 11386R Form **1042-S** (2012)

16. Appendix V – IRC Section 6013(g) Election

Election to Treat Nonresident Alien Individual as Resident of the United States – IRC Section 6013(g)

Spouse was a nonresident alien and taxpayer was a U.S. citizen or resident alien on the last day of the tax year ended 12/31/XX. Pursuant to IRC Section 6013(g), the taxpayer and spouse hereby elect for the spouse to be treated as a U.S. resident for the tax year ended 12/31/XX and subsequent tax years.

X_____

Taxpayer's Name:

Social Security Number:

Address:

X_____

Spouse's Name:

Social Security Number:

Address:

17. Appendix VI - IRC Section 6013(g)(4) Revocation

Termination of Election to Treat Nonresident Alien Individual As Resident of the United States - IRC Section 6013(g)(4)

Pursuant to IRC Section 6013(g)(4) and Regulation 1.6013-6(1), the taxpayer hereby revokes the election to be treated as a U.S. resident for the tax year ended December 31, 20XX and subsequent years.

X_____

Taxpayer's Name:

Social Security Number:

Address:

X_____

Spouse's Name:

Social Security Number:

Address: